Statement by the Honorable José De Gregorio
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Speaking on behalf of the Southern Cone Countries of Latin America
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I. The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

We come to this meeting at a time where the global economy has maintained the pace of recovery, though at different speeds in emerging and advanced economies, which is resulting in tensions around the world. We agree with the view that risks to the growth forecast are tilted to the downside, in particular for advanced economies in 2011, due to the fact that their financial systems remain fragile and the deleveraging process will result in slow demand growth. We cannot discard the possibility of further bouts of financial turbulence where the Fund might be required to act.

In this context, we concur with the view that a sustained recovery rests on two rebalancing acts. An internal rebalancing in advanced economies is needed to secure a shift from public to private and external-sector-driven growth, while for major emerging market economies an external rebalancing is needed in order to shift growth from external to domestic sources. However, we must distinguish among surplus economies, and the Fund's assessment should be clear about this. It is expected that countries that are experiencing exceptionally high terms of trade run a current account surplus. This is the case of Chile and many other commodity exporters.

The reluctance of economies across the world to allow for exchange rate appreciation poses specific challenges that can derail the recovery and/or stress the financial and economic environment. This is a key factor behind tensions in foreign exchange rate markets. First, delaying or avoiding nominal exchange rate appreciation, where needed, will lead to a more stimulative global monetary policy stance, which can give rise to asset price bubbles, inflation, and distortions in the pricing of risk. Second, the eventual rigidity of real exchange rates, coupled with the risk of premature fiscal consolidation, could lead to an abundance of global savings, lack of effective global demand, lower real wages, and a depressed level of consumption worldwide. Finally, the lack of exchange rate adjustment in some major economies is placing pressure on economies with more flexible exchange rate regimes. Indeed, at the current juncture the exchange rate adjustment is mostly falling on small open economies. These are precisely the economies that can rely less on domestic demand to sustain growth.

Both advanced and emerging economies face financial stability challenges driven by their respective monetary and exchange rate trends. While in advanced economies low interest rates will likely persist for a long time, in emerging economies, capital inflows and appreciating exchange rates need to be dealt with caution so as to avoid the emergence of vulnerabilities. However, interest rate differentials are at their lowest ever, and thus concerns about their role in fueling capital inflows might be premature. Nevertheless, growth prospects differ significantly between advanced and emerging economies. As long as these fundamental forces remain in place, capital flows should be expected, and the use of macroprudential measures could help avoid their negative consequences. Delaying exchange rate adjustments may end up fueling capital inflows more than interest rate differentials by themselves.

Coordinated policy actions in the current environment are called for. A proper assessment of global interlinkages and risks is needed so that the policy dialogue can proceed in a cooperative environment. The Fund is uniquely placed to conduct this global assessment. Thus it should strive for an even more candid and pointed assessment of the real exchange rate levels across the world, as well as the respective proper policy stances going forward for each economy.

II. IMF Reforms—Quotas, Governance, and Mandate

Before discussing the process of reforms to the IMF, we would like to address the need to resolve the pending situation of the Regular Election of Executive Directors. In our view, it is of the utmost importance to swiftly find a solution to the current standstill in order to move forward in the discussion of the other reforms. We believe that postponing the Regular Election of Executive Directors will necessarily weigh down on the credibility of the ongoing reform process of IMF governance.

In this regard, the absence of a clear resolution of this issue going forward reveals, at the very least, a significant lack of transparency in the decision process of the main shareholders or, worst case scenario, a standstill that compromises the viability of the leadership and governance of this institution. The resolution to the standstill situation we are currently in should be in line with good corporate governance principles, so that there is adequate protection of the stake of minority shareholders from the implications of decisions taken by large shareholders. The Independent Evaluation Office could report on these corporate governance principles.

The option for the resolution to the current situation under the Articles of Agreement would imply that four of the current chairs in the Board representing emerging market and developing countries (EMDCs), including this one representing the constituency of the Southern Cone Countries, would no longer exist. Such collateral damage to minority stakeholders should be avoided, as we might end in a situation that goes exactly in the opposite direction of the whole process of governance reform, and this is unacceptable.

On the size of the Fund, we concur with the view that a substantial overall increase in the size of the institution is needed to ensure that it has sufficient resources to meet members' needs. At least a doubling of the size of quotas is the minimum required amount, in our view, for the Fund to fulfill its mandate. Recent experiences show that a strong commitment of resources at an early date will be required. While we are aware of the need to strike the right balance between quota and borrowed resources from the New Arrangements to Borrow (NAB), we would favor postponing such discussion to a date after the actual increase in the size of quotas has been fully implemented.

Regarding the Fourteenth General Review of Quotas, time is running out for the conclusion of this process and, therefore, we need a prompt resolution. Although we believe that the current quota formula should be the basis to work from, the formula should be promptly revised after meeting the January 2011 deadline to enhance its role as a credible rules-based criterion for future quota revisions.

We welcome the steps taken by the staff towards resolving the inherent tensions in the implementation of the proposed shift in quota shares to EMDCs of at least 5 percent. However, we are of the view that the discussions surrounding the concept of dynamism clouded the fundamental spirit of the quota reform, as a substantial part of the shift is at the expense of other EMDCs. It is a confusing and arbitrary concept. In the extreme, if applied to the whole world, the share of advanced economies would be significantly diminished. Moreover, the protection of quota shares of currently overrepresented members arose without any clear connection with IMFC's previous statements. Given this, among the options presented by the staff, we favor a quota realignment that gives rise to the largest transfer of quota from advanced to emerging economies and that minimizes the protection of over-represented advanced economies. To protect the voting share of the poorest members, we believe the relevant eligibility criterion for such members is the Poverty Reduction and Growth Trust.

On the governance reforms related to the composition and size of the IMF Board, these reforms should explicitly consider the protection of minority shareholders from large shareholders in line with good corporate governance. In this regard, the principle of voluntary constituency formation based on quotas should be preserved and enhanced. Thus, we support the proposal to shift to an all-elected Board with adequate safeguards against excessive concentration of voting power. Limits of the total voting power to elect an Executive Director should be done with enough flexibility to facilitate an adequate representation of EMDCs at the Fund's Board and some consolidation of advanced economy chairs. The possibility of having a Second Alternate Executive Director for multi-country constituencies could play an important role in facilitating the transition to a new Board composition in terms of those chairs that are expected to consolidate in this process.

On surveillance, we welcome the recent approval of the mandatory integration of financial stability assessments into bilateral surveillance for members with systemically important financial systems, as well as the need to map the interconnectedness and risks in financial markets and the need to address important gaps in financial data. We also welcome the Board's recent approval of the Fund's membership in the Financial Stability Board as a way to further enhance the joint work of both institutions.

Finally, we would like to reiterate our support for the selection of Management under a transparent and open process, and we welcome the steps taken to enhance the staff's diversity.